

## REVIEW & OUTLOOK

### Communism in Default

Top U.S. officials are engaged in a debate—both within the administration and with our allies—over what steps to take in reaction to the Soviet-inspired reimposition of totalitarian rule in Poland. The reaction, when it does come, should meet certain tests: that it punish the Soviets rather than the Polish people, that it serve longer-term Western interests and that it give the West more, rather than less, leverage over the Soviet bloc in the future.

What we most fear is that the current debate will lead to nothing more than a repetition of the Carter administration reaction against the invasion of Afghanistan: That is, that searching frantically about for something to do, the administration will reimpose the grain embargo it only recently lifted. When the Carter people declared a grain embargo, we branded it as a futile substitute for real action. And as we predicted, in practice it was easily evaded, becoming a nuisance for the Soviets and an embarrassment for the U.S.

Unlike the Carter administration, the Reagan administration has embarked on a serious rearmament effort. This gives its anti-Soviet stance some standing, and we could support a new grain embargo provided it were part of a package symbolizing a new page in Soviet-American relations, and carrying real costs for the Soviet bloc. We have in mind something like this:

All negotiations with the Soviets would be suspended indefinitely; our representatives would return neither to the Madrid human-rights talks nor the Geneva arms talks. Further and truly concerted efforts would be made to stop the Soviet gas pipeline deal. And to hit the Soviets where it really hurts—in their credit standing—the U.S. government should declare in default the government credits extended to Poland, and proceed to attach assets accordingly.

We think it is no coincidence that the long-prepared crackdown in Poland came only a few weeks after resumption of the Geneva arms negotiations. These negotiations are a symbol of Soviet good standing in the international community, help freeze into position the Soviet military superiority in Europe and offer a handy forum for

playing on divisive tendencies within NATO. There is of course reason to hold open some prospect of arms reductions when the Soviets are ready, but their actions in Poland manifestly suggest that time is not now. (As do their violations of existing arms control treaties by supplying chemical and biological weapons for use in Asia.) The Madrid talks, intended to follow up the Helsinki human-rights agreements, are simply a travesty in the wake of Poland.

Nor is it a coincidence that the Polish crackdown was held off until the Soviets could wrap up their gas pipeline deal with Western Europe. The deal not only will give the Soviets billions in much-needed foreign exchange, it will help them develop vital resources that the Communist economic system is incapable of developing itself. The more we learn of this transaction, the more we recognize that its collapse would be one of the most damaging single blows to the Soviet economy and military-industrial complex.

The administration should refuse export licenses to the American companies supplying machines and materials for the gas pipeline project, and study the withdrawal of U.S. government contracts for key foreign suppliers if they sell to the project. It should stress to the West German government the now-budding U.S. feeling that the European allies are not a help but a liability. And it should stress to both governments and banks the risky nature of the subsidized loans that are the heart of the pipeline agreement.

The pipeline loans, like the Polish loans now at dire risk, are far from strictly economic deals subject to the normal credit processes of Western banks. The German banks, in particular, were dragged into them by a Bonn government intent on "detente" at all costs. The banks' implicit calculation is that if such loans cannot work economically they will be bailed out by governments—by the Soviet government, and failing that, by the Western governments. The perceived risklessness of these loans has assured the Soviet bloc of a ready supply of cheap credit; nothing would hurt those countries as much as cutting off this free ride.

Declaring a default on Polish credit from the U.S. government would trigger a general default on the \$27 billion of loans accumulated by Western governments and banks in the last decade. American banks hold about \$1.7 billion of this debt, could absorb the loss and have already made handsome profits on the loans. West German banks, with upwards of \$4 billion in debt, would be in more serious trouble, but surely the Bundesbank and Fed could shore up the severely threatened, though it might be good to allow an exemplary hanging or two.

In any event, declaring a default would simply acknowledge what everybody knows to be a fact—that there is no realistic prospect of Poland paying its debt. From the standpoint of the Polish people, the burden of the debts would be off their back. This default would raise the price of capital to the faltering Soviet bloc; indeed, we doubt you would see much Western capital flowing to finance the development of the Soviet Union. This would be a punishing price. Its creaky economy can no longer feed the country's people and must depend on Western technology for what little productivity it can muster.

Short of the repression in Poland itself, nothing has been more reprehensible these last few weeks than the sight of Western bankers cheering on the Communists in their "austerity" program in the hopes that slave labor will bail out their ill-advised loans. Ironically, the most important single thing we can do to punish the Soviet Union is to get our bankers to behave like bankers. If they charged a price commensurate with the real risk we now see in Poland, Western capital would no longer be siphoned into the Eastern bloc, and the Communist economy would creak into bankruptcy not only in Poland and Rumania but in the Soviet Union itself.